

U.S. Patent Litigation What to Expect and How to Prepare

Danish American Business Forum
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Presented by Charles S. Barquist

Big Verdicts

What sum of money, if paid now in cash, do you find from a preponderance of the evidence would fairly and reasonably compensate i4i for Microsoft's infringement of the '449 patent?

Answer with the amount: \$ 200,000,000

i4i v. Microsoft verdict

What sum of money, if paid now in cash, do you find from a preponderance of the evidence would fairly and reasonably compensate Mirror Worlds for Apple's infringement?

Answer with the amount for the '427 Patent 208.5 MILLION

Answer with the amount for the '227 Patent 208.5 MILLION

Answer with the amount for the '313 Patent 208.5 MILLION

Mirror Worlds v. Apple verdict

Big Business



Portfolio Media. Inc. | 860 Broadway, 6th Floor | New York, NY 10003 | www.law360.com
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Acacia Nabs Wireless Co., 4G Patent Cache For \$160M

By **Liz Hoffman**

Law360, New York (January 13, 2012, 2:38 PM ET) -- Fast-growing technology licensing company Acacia Research Corp. has agreed to buy Adaptix Inc. and its treasure trove of 4G wireless patents from private equity firm Baker Capital Corp. for \$160 million, Acacia said Friday.

Big Business

The New York Times

DealB%k

Edited by Andrew Ross Sorkin

AUGUST 15, 2011, 9:11 PM

In the World of Wireless, It's All About Patents

By *MICHAEL J. DE LA MERCED*

Google, in announcing a \$12.5 billion deal for [Motorola Mobility](#) on Monday, saved its warmest words not for Motorola Mobility's management or its products, but for one valuable asset: the company's roughly 17,000 patents, as well as an additional 7,500 patents that are under government review.

Rick Maiman/Bloomberg News
The Motorola shareholder Carl C. Icahn pronounced himself pleased with the deal.

Patent Litigation in the U.S.

- Available forums
 - U.S. district courts
 - Non-specialized judges
 - Jury trials
 - Venue strategies
 - U.S. International Trade Commission
 - Specialized judges
 - No jury
 - Relatively fast
- Arbitration

Who can be sued?

- Jurisdiction
 - District Courts
 - Minimum contacts with U.S.
 - Stream of commerce theory
 - ITC
 - In rem jurisdiction

Who can sue?

- Two types of patent plaintiffs
 - Competitors
 - Possible counterclaims
 - Cross-licensing
 - Non-practicing entities – NPEs or “Trolls”
 - Individual inventors
 - Patent holding companies; litigation as business model

Where can you sue?

- District Court
 - Any state where infringement occurred
 - Personal jurisdiction required
- Choice of venue and transfer strategies
- Impact of new AIA joinder rule: claims must arise out of same transaction or occurrence – not enough that same patent is allegedly infringed
 - Fewer multi-defendant cases
 - Harder for plaintiffs to keep cases in favored districts
 - More multi-district litigation

Remedies

- Damages
 - Lost profits
 - Reasonable royalties
 - “Mixed” awards
 - Marking requirement
- Injunctions
- Triple damages
- Attorneys fees

Lost Profits

- Lost profits typically are the largest measure of monetary damages, but are more difficult to prove than reasonable royalty.
- Profits that the patentee would have made on the sales of its patented products but for the infringement.
- Four-part test:
 - Demand for the patented product
 - Absence of acceptable non-infringing substitute
 - Manufacturing/marketing capacity
 - Amount of profit the patentee would have made

Reasonable Royalty

- Reasonable royalty damages are awarded in over 75% of cases finding infringement.
- If there is no established royalty rate, the judge or jury will determine the royalty that the parties would have agreed to in a “hypothetical negotiation” at the time infringement began.
- Fifteen “Georgia-Pacific” factors considered in determining royalty rate.
 - Critique: Not all factors may be relevant in every case; judges should be more active “gatekeepers”

Reining in Damages Awards

- ResQNet v. Lansa: “trial court must carefully tie proof of damages to the claimed invention’s footprint in the marketplace”
- Entire Market Value Rule applied more strictly
- 25% Rule of Thumb rejected

Entire Market Value Rule

- Permits recovery of damages based on the value of the entire apparatus
 - The infringing components must be the basis for consumer demand for the entire machine
 - The individual infringing and non-infringing components must be sold together
 - Individual infringing and non-infringing units must be analogous to a single functioning unit
- Open issue: Does accused feature need to be *the* basis, a *substantial* basis, or *predominant* basis of the consumer demand for the accused product?

Cornell v. Hewlett-Packard

609 F. Supp. 2d 270 (N.D.N.Y. 2009)

- **Patent at issue:** instruction-issuing system in a CPU
 - used in HP servers
- Judge reduced \$184M jury verdict to \$53M
- Cornell tried to use Entire Market Value Rule to base royalty on revenue from sales of entire computer
- Court: royalty base must be associated with “lowest salable unit with close relation to the claimed invention” – here, the CPU

Demise of 25% Rule of Thumb

Uniloc v. Microsoft, 632 F.3d 1292 (Fed. Cir. 2011)

- 25% Rule of Thumb: Assume in hypothetical negotiation that licensee would pay royalty of 25% of its expected operating profits for the infringing product
- Federal Circuit: 25% Rule is “a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation.”
- “Evidence relying on the 25 percent rule of thumb is thus inadmissible under *Daubert* and the Federal Rules of Evidence, because it fails to tie a reasonable royalty base to the facts of the case at issue.”

Injunctions

- Court order barring further infringement
 - Patentee must show irreparable harm
 - Difficult for NPEs to obtain
 - Enforceable through contempt
 - Sometimes stayed pending appeal
- Preliminary injunction – during pendency of case
 - Probability of success
 - Balance of hardships
- Permanent injunction – following trial or summary judgment

Attorneys Fees

- Exception to “American rule”
- May be awarded to prevailing party where:
 - Litigation was brought, or defenses were asserted, in subjective bad faith
 - AND
 - Litigation is objectively baseless
 - Must be so unreasonable that no reasonable litigant could believe it would succeed

Willful infringement

- Court may award up to 3 times actual damages
- Standard: “objective recklessness:”
- Patentee must show by clear and convincing evidence:
 - 1. Infringer acted despite an objectively high likelihood that its actions constituted infringement
 - 2. Objectively-defined risk was known or so obvious that it should have been known to the accused infringer
- Replaced “affirmative duty of due care”
- Ordinarily “will depend on an infringer’s prelitigation conduct”

International Trade Commission

- Fast pace
- Domestic industry requirement; but open to non-U.S. patentees
- Imported infringing products
- No counterclaims
- Intrusive discovery
 - On both sides
 - Outside the U.S.
 - Strong protection for confidential information
- Role of ITC Staff
- Exclusion orders
 - Limited
 - General
 - Enforced by Customs agents
- Parallel district court proceedings

Discovery

- Broad standard: relevant to claims or defenses or likely to lead to discovery of relevant evidence
- Several methods
 - Document production
 - Interrogatories
 - Requests for admission
 - Depositions

Discovery

- E-discovery of electronic documents
 - Can be very expensive
 - Seek early agreement to limit expense and avoid disputes

Discovery

- Duty to preserve documents
 - Document retention notices
- Risk of sanctions
 - Fines
 - Cost shifting
 - Issue preclusion
 - Adverse inference instruction
 - Terminating sanctions

Discovery Sanctions

- Failing to comply with discovery obligations in patent litigation can have severe consequences
- District Courts have the inherent authority to impose sanctions to control litigation. Sanctions may include:
 - Monetary sanctions (\$1,000s to \$100,000s)
 - Evidentiary sanctions (e.g., loss of defenses or evidence conclusively established; adverse inference instruction to jury)
 - Curtailment of procedural rights (e.g., loss of trial time, use of experts in trial)
 - “Death Penalty” (terminating sanctions resulting in judgment)

Duty to preserve evidence

- “The duty to preserve evidence begins when the litigation is ‘pending or reasonably foreseeable.’” *Micron*, 645 F.3d at 1320.
- When is litigation “reasonably foreseeable”?
 - Defendant: only “reasonably foreseeable” when litigation is “imminent or probable without significant contingencies.”
- Court rejected defendant’s narrow view
- Fact-specific inquiry committed to district court’s discretion. *Micron*, 645 F.3d at 1320.

“Reasonably Foreseeable” Test

- “The exact date at which the litigation was ‘reasonably foreseeable’ is not critical” to reviewing district court’s decision. *Micron*, 645 F.3d at 1322.
- Instead, the question is whether litigation was “reasonably foreseeable” before a party does not preserve litigation-related material. *Id.*

Duty to preserve evidence

- Document Retention Policy
 - Destruction of documents on a regular schedule motivated by general needs typically provides a safe harbor, but not if policy is aimed at frustrating litigation
- Document retention notices
 - Must be clear and sent to all appropriate individuals
 - Need for follow up and reminders

Discovery Sanctions: *Adams v. Dell*

- Magistrate judge threatened to impose terminating sanctions even though no evidence of deliberate destructive effort. 621 F. Supp. 2d 1173 (D. Utah 2009).
- Facts:
 - Plaintiff obtained several U.S. patents directed to fixing defect in floppy disk controllers
 - The defects led to multiple class-action lawsuits, one of which ended with \$2.1 billion class-action settlement by Toshiba
 - Plaintiff first sued Gateway for patent infringement in 2002. He sent a demand letter to Taiwan-based ASUSTek in February 2005.

Adams v. Dell

- Reasonably Foreseeable:
 - Demand letter to ASUSTek was sent in 2005, but plaintiff argued that duty to preserve began in 2000/2001
 - The court agreed because:
 - Toshiba's 1999 class action settlement was highly publicized
 - At the same time, a class action had been filed against HP
 - Defendants had notice: "Throughout this entire time, computer and component manufacturers were sensitized to the issue."
 - In that environment, defendant "should have been preserving evidence related to floppy disk controller errors."

Adams v. Dell

- Sanctions:
 - Court recognized that the most “widely known instruction is the adverse inference instruction,” but stated that it would consider severest form of sanction: terminating sanctions.

Discovery Sanctions: *BenQ*

Kamatani v. BenQ Corp., 2005 WL 2455825 (E.D. Tex. Oct. 4, 2005)

- Patent infringement suit concerning optical disk-drive technology
- Facts:
 - Plaintiff had licensed Philips
 - A Philips subsidiary, PBDS, was in a joint venture with BenQ. (Philips owned 51% of PBDS and BenQ 49%)
 - Discovery disputes concerned BenQ's obligation to produce Philips' technical documents
 - BenQ stated that it had request documents from PBDS and Philips, but had been refused

Kamatani v. BenQ

- Court's findings:
 - BenQ eventually produced over 700 emails from Philips (including technical materials)
 - BenQ witness said Philips almost always agreed to information requests
 - BenQ had access to Philips' source code via a network access agreement
- Ruling: BenQ worked with Philips to avoid court-ordered discovery
 - \$500,000 in fines
 - License defense stricken
 - Attorneys fees and costs awarded to plaintiff

Experts

- Technical experts: infringement and validity
- Patent law experts: inequitable conduct and willfulness
- Damages experts
- Consulting experts
- Selection of right expert can be critical to success
- Reports; depositions; claim construction; trial testimony

Litigation Impact of the AIA

- Joinder rule
 - May lead to even more ITC investigations – ITC provides greater ability to bring single action in one forum against multiple unrelated infringers
 - May lead to more multi-district litigation in district courts
 - Greater burden on small, under-funded plaintiffs
- Additional discovery burdens
 - Prior art definitions:
 - Disputes over what was “otherwise available to the public”
 - Discovery into more non-U.S. prior art
 - Applicable only to patents issued after 9/16/12
 - Expanded prior user defense
 - Applicable to patents issued after 9/16/11

Litigation Impact of the AIA

- Elimination of best mode defense
 - Some cost savings in discovery
- Supplemental examination procedure may further reduce inequitable conduct defenses
 - Opportunity for patentee to “cleanse” prosecution file
- Virtual marking - Patentee may mark an article with “Patent” or “Pat.” with a link to free website associating the article with the patent number.

Responding to the Demand Letter

- Often the first step in what may result in litigation
- Response may determine whether litigation does ensue, and if so influence the outcome.

- First priority: create and protect attorney-client privilege
 - Create team including in-house and/or outside counsel
 - Limit involvement to team members
 - Legend emails and other documents with privilege and work product designations

- Avoid creating unfavorable evidence
 - Limit written communications; privilege may not be absolute
 - Avoid speculation about the patent or infringement issues

Responding to the Demand Letter

- Preserve potentially relevant evidence
 - Document retention notices
 - Talk to IT department
- Consider possibility of insurance coverage or indemnification from suppliers
- Investigate patent owner
 - Track record; resources; prior litigation; prior licenses
- Consider possible allies
 - Other likely or actual targets
 - Joint defense groups

Responding to the Demand Letter

- Investigate alternate solutions
 - Licensees with sublicensing rights
 - Co-inventors or others with rights to patent
- Consider possible counterclaims based on your IP
 - Or whether to acquire patents to use in defense
- Consider using pending patent applications
 - File continuation or divisional, or amend claims, to preempt asserted patent

Responding to the Demand Letter

- Develop the response
 - Examine infringement and validity issues
 - Consider other defenses: marking; laches; inequitable conduct
- Consider obtaining opinion from independent patent counsel
 - Opinions no longer as routine since 2007 *Seagate* decision on willful infringement
 - Reliance on opinion requires waiver of attorney-client privilege
 - Opinions after lawsuit begins less significant under *Seagate*

When Are Opinions Useful?

- Outsource analysis and prior art search before litigation
 - Resources
 - Tough arguments
 - Credibility (with waiver)
- Prepare testifying expert once litigation underway
 - Admissible report
 - Enhanced credibility
 - Consistent with litigation strategy without “chicanery”
- Inform business strategy
 - Taking a license
 - Attempting to design-around a patent

When Are Opinions Useful?

- Defend against inducement claims
 - *DSU Medical v. JMS*, 471 F.3d 1293 (Fed. Cir. 2006): effective reliance upon an opinion of counsel negates specific intent required to induce infringement.
 - May reflect whether the accused infringer “knew or should have known” that its actions would cause another to directly infringe
 - But, AIA changes this:
 - Failure to obtain legal advice with respect to allegedly infringed patents, or failure to present this advice to a court or jury, cannot be used to prove willful infringement or that the infringer intended to induce infringement

Advice of Counsel

- Guidelines
 - Consult counsel in a timely manner.
 - Opinion defenses are ideally consistent with trial defenses.
 - Opinion is thorough and based on accurate and complete information.
 - At least one consistent person should always be available who has read and understood, and would be prepared to testify that the company has relied upon, the opinion.
 - If there is a change in circumstances, further analysis may be required.

Alternatives to Opinion Letters

- Perform internal assessment of risk
 - Have senior technical person review patent and provide verbal assessment
 - If non-infringement position is clear, prepare non-infringement memo
 - If non-infringement position is weak, perform prior art search.
 - If patent is clearly invalid and/or you are practicing in the prior art
 - Consider preparing invalidity memo
- If outside counsel is engaged, memorialize analysis in non-privileged form, i.e., substantive response letter to patentee

10 Things NOT To Do

1. Don't try to conceal your products or processes from other side
2. Don't destroy or fail to preserve documents
3. Don't ignore the matter and not bother to investigate at all
4. Don't ignore infringement concerns voiced by engineering/technical staff
5. If you decide to seek an opinion, don't withhold relevant information from your opinion counsel
6. Don't have opinion written by in-house counsel
7. Don't obtain opinion from litigation counsel
8. Don't tell opinion counsel you need a "non-infringement opinion" or an "invalidity opinion"
9. Don't disclose opinions to potential investors or joint venturers
10. Don't assert defenses that are untenable

How To Win

- Forfeit weak arguments
 - Don't be afraid to abandon the “kitchen sink” approach
- Take the initiative; be offensive
 - Force plaintiff to make complicated arguments
- Hire local counsel as co-counsel
- Humanize the arguments
 - Enlist the inventor
 - Experts

How To Win

- Conduct mock trials
 - Revealed weaknesses in non-infringement arguments
 - Sharpened invalidity arguments
 - Got client comfortable with strategy
 - Good way to think about plaintiff's case
- Understand the benefits and limitations of joint defense groups

Joint Defense Groups

- Benefits
 - Distribution of labor
 - Decrease costs for your client on common issues
 - Leverage expertise of different counsel
- Drawbacks
 - Wheel spinning
 - Compromise can lead to sub-optimal decisions for your client
- Advice
 - Take the lead on issues important to your client
 - Break away if it hurts more than it helps
 - Control the experts
 - Attend depositions

Questions?

Charles Barquist

cbarquist@mofa.com

1-213-892-5400

Morrison & Foerster LLP

555 West Fifth Street

Los Angeles, California 90013

U.S.A.